LEGISLATIVE SERVICES AGENCY
OFFICE OF FISCAL AND MANAGEMENT ANALYSIS

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FISCAL IMPACT STATEMENT

LS 7095
BILL NUMBER: SB 520

NOTE PREPARED: Mar 4, 2003
BILL AMENDED: Feb 27, 2003

SUBJECT: Exempt aircraft from property tax.

FIRST AUTHOR: Sen. Long
FIRST SPONSOR: Rep. Moses

BILL STATUS: As Passed - Senate

FUNDS AFFECTED: **X** **GENERAL**
X **DEDICATED**
FEDERAL

IMPACT: State & Local

Summary of Legislation: (Amended) This bill establishes a property tax deduction for 100% of the assessed value of aircraft owned or operated by certain air carriers or scheduled air taxi operators that have an Indiana corporate headquarters. The bill also provides that those aircraft are subject to the aircraft excise tax.

Effective Date: January 1, 2003 (retroactive); January 1, 2004.

Explanation of State Expenditures: (Revised) The state pays Property Tax Replacement Credits (PTRC) in the amount of 60% of school general fund levies attributable to all property and 20% of the portion of all operating levies (including the remaining 40% of the school GF levy) that are attributable to real property and non-business personal property. Homestead Credits are paid by the state in the amount of 20% of the net property tax due for qualifying funds on owner-occupied residences.

Tax shifts from business personal property to other property cause the state's expense for regular PTRC and Homestead Credits to increase. PTRC and Homestead Credits are paid from the Property Tax Replacement Fund, which is annually supplemented by the state General Fund. Therefore, any increase in PTRC or Homestead Credit payments would ultimately impact the state General Fund. The increased state expense under this bill is estimated at $200,000 in FY 2004 (partial year) and $590,000 in FY 2005 and years following.

Explanation of State Revenues: (Revised) The state levies a tax rate for State Fair and State Forestry. Any reduction in the assessed value base will reduce the property tax revenue for these two funds. The annual revenue reduction under this proposal is estimated at about $1,700 in FY 2004 and $3,400 in FY 2005 and years following.

Explanation of Local Expenditures:

Explanation of Local Revenues: (Revised) Effective with property taxes paid in 2004, this bill would provide a 100% property tax deduction for (1) passenger aircraft with a seating capacity of 90 passengers or less and (2) cargo aircraft that are owned by an air carrier or scheduled air taxi operator. To qualify for the deduction, the owner must have its corporate headquarters in Indiana or be a subsidiary of another corporation with its headquarters in Indiana.

Two airline taxpayers in Indiana have been identified as being impacted by this bill. Tax return information regarding 2002 assessments suggests that about $102 M in AV would qualify for the exemption under this bill. This analysis assumes that the exempt property's assessed value would remain constant. The exempt property under this bill is located in Allen and Marion Counties.

Additional deductions reduce the assessed value tax base. This causes a shift of the property tax burden from the taxpayers receiving the exemptions to all taxpayers in the form of an increased tax rate.

In Allen County, a $9.4 M reduction in AV would cause an estimated $0.0045 (0.2%) increase in the local gross tax rate and cause a gross tax shift of about $202,000 in CY 2004 and later years from the taxpayer receiving the deduction to all taxpayers. The net tax shift (after PTRC and homestead credits) is estimated at about $165,000 per year. Local civil units and school corporations would lose about $26,000 per year in cumulative fund revenue.

In Marion County, a $92.5 M reduction in AV would cause an estimated $0.0130 (0.6%) increase in the local gross tax rate and cause a gross tax shift of about $2.8 M in CY 2004 and later years from the taxpayer receiving the exemption to all taxpayers. The net tax shift (after PTRC and homestead credits) is estimated at about $2.2 M in CY 2004 and later years. Local civil units and school corporations would lose about $365,000 in cumulative fund revenue in CY 2004 and later years.

The total gross tax shift for all counties under this proposal is estimated at $3.0 M in CY 2004 and later years.

The total net tax shift (after PTRC and homestead credits) for all counties under this proposal is estimated at $2.4 M in CY 2004 and later years.

The total cumulative fund revenue loss is estimated at about $390,000 in CY 2004 and later years. Total local revenues, other than cumulative funds, would remain unchanged.

Aircraft Excise Tax: This bill would subject the airline property that is receiving the 100% property tax deduction to the aircraft excise tax. This tax is assessed on aircraft at different rates based on the type of engine, the maximum landing weight, and the age of the aircraft. Estimates of annual aircraft excise tax were made based on aircraft data submitted by the impacted taxpayers. The CY 2004 excise tax is estimated at $188,700 on the planes in the fleet in 2002. The Allen County portion would amount to about $15,200 while the excise tax on the Marion County fleet is estimated at $173,500.

In Marion County, aircraft excise tax is distributed just like motor vehicle excise tax. The excise tax is apportioned to the taxing units that make up the taxing district where the aircraft is taxed. In Allen County, 100% of the revenue generated by the aircraft excise tax is distributed to the airport authority.

State Agencies Affected: Department of Local Government Finance.

Local Agencies Affected: Allen and Marion County auditors; Local governmental units and school corporations in Allen and Marion Counties; Allen County Airport Authority.

Information Sources: Kurt Barrow, Assessment Director, Department of Local Government Finance (317) 232-3777; Local Government Database.

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